

Message Text

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ACTION EUR-12

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FM AMEMBASSY BERLIN

TO SECSTATE WASHDC 2083

INFO AMEMBASSY BUCHAREST

AMEMBASSY BUDAPEST

AMEMBASSY MOSCOW

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REF:(A) STAE 12648(B) MOSCOW 1106

E.O.11652: N/A

TAGS: EEWT, GE

SUBJECT: EAST-WEST FOREIGN TRADE BOARD STUDY; COMPENSATION
ARRANGEMENTS IN EAST-WEST TRADE

1. WE HAVE LITTLE TO ADD TO TRADE BOARD WORKING GROUP'S
THOROUGH OUTLINE AND MOSCOW'S THOUGHTFUL AND INFORMED SURVEY.
IN GDR MOST TRANSACTIONS ELIGIBLE FOR EXAMINATION UNDER
" COMPENSATION ARRANGMENTS" HEADING ARE SIMPLY SUCCESSFUL
EFFORTS OF GDR FTO'S TO PERUSADE TRADING PARTNERS TO ACCEPT
A GIVEN PERCENTAGE OF THE VALUE OF AN IMPORT CONTRACT IN
COUNTER EXPORTS WHICH MAY OR MAY NOT BE ALLIED TO
FOREIGNER'S EXPORT PORUDCT. THE GDR'S NEED TO MAKE SUC
DEALS IS AN OBVIOUS REFLECTION OF GDR FOREIGN EXCHANGE
SHORTAGE AND LIMITED CAPACITY TO MARKET EXPORTS ON ITS OWN.
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OUR IMPRESSION IS THAT MOST SUCH DEALS ARE ON A RATHER SMALL SCALE,

BUT THAT FTO'S WHICH TYPICALLY EXECUTE BOTH IMPORTS AND EXPORTS IN A GIVEN PRODUCT LINE, ARE UNTIRING IN THEIR EFFORTS TO SEEK OUT EXPORT SUPPLIERS WHO ARE WILLING TO ACCEPT GDR PRODUCT IN PART PAYMENT.

2. ANOTHER AREA OF INTEREST IN THIS CONNECTION IS CIGARETTE MANUFACTURE. WE UNDERSTAND THAT GDR IMPORTS BLENDED TOBACCO FROM THE WEST FOR THE MANUFACTURE UNDER LICENSE OF WESTERN CIGARETTES, OF WHICH A PORTION OF THE OUTPUT IS MARKETING DOMESTICALLY IN HARD CURRENCY SHOPS, AND ANOTHER PORTION RETURNED TO THE WEST.

3. WE KNOW OF NO REAL COMPENSATION DEALS CURRENTLY IN OPERATION INVOLVING WESTERN SUPPLY OF EQUIPMENT OR TECHNOLOGY AGAINST FUTURE DELIVERIES OF OUTPUT; NOR DO WE KNOW OF ANY FOREIGN EQUITY OR MANAGEMENT INTEREST IN A GDR ENTERPRISE. WE EXPECT, HOWEVER, THAT GDR INTEREST IN COMPENSATION DEALS, WITHOUT FOREIGN EQUITY OR MANAGEMENT, WILL INCREASE WITH THE GRADUAL BREAKDOWN OF GDR ECONOMIC ISOLATION. THE CHEMICAL INDUSTRY PROBABLY OFFERS THE GREATEST PROSPECTS FOR DEALS OF THIS KIND. WE NOT IN THIS CONNECTION THAT UNION CARBIDE IS APPARENTLY CONSIDERING A SCHEME WHICH WOULD CHANGE THE COMPANY'S POSITION FROM THAT OF AN EXPORTER TO A NET IMPORTER OF ETHYL OXIDE FROM THE GDR. UNDER THE SCHEME, UNION CARBIDE WOULD SUPPLY TECHNOLOGY AND EQUIPMENT FOR THE CONSTRUCTION OF PRODUCTION CAPACITY GREATER THAN GDR DOMESTIC NEEDS, OFFERING THE GDR A GUARANTEED MARKET FOR THE EXPORTABLE SURPLUS.

4. FINALLY, THE GDR HAS EXPRESSED INTEREST IN "JOINT VENTURE" TRANSACTIONS WITH WESTERN COUNTRIES FOR PRODUCTION AND MARKETING IN THIRD COUNTRIES. WE DOUBT, HOWEVER, THAT THE GDR'S NOTION OF A JOINT VENTURE EXTENDS BEYOND STRAIGHT PURCHASE OF EQUIPMENT AND TECHNOLOGY FOR THIRD-COUNTRY PROJECTS, WHICH WOULD IN ITSELF BE A NEW STEP FOR THE GDR.

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